

Bonus Forward - Currency Buyer

A Bonus Forward allows you to buy foreign currency at an agreed "Protected Rate" of exchange, but with the potential to buy currency at an enhanced "Bonus Rate" if the market moves against you.

If at expiry, the market rate is at or above the Protected Rate, you are obliged to buy currency at the Protected Rate. However if the market is below the Protected Rate, you can receive a "Bonus Rate" unless the market trades at or below a pre-agreed "Limit Rate".

Advantages

- Provides a pre-agreed level of protection on 100% of your exposure
- Allows you to benefit from an enhanced Bonus Rate down to a pre-agreed Limit Rate
- No premium is payable

Disadvantages

- If the Limit Rate trades at any point during the lifetime of the contract you lose the opportunity to benefit from an enhanced Bonus Rate below the Protected Rate
- The Protected Rate will always be less favourable than the market forward rate at the time of entering into the contract
- Breakage costs may be applied should you wish to terminate the Bonus Forward early

How it works

You import goods from the US and need to pay USD 750,000 (the "Protected Amount") in nine months' time to your supplier.

The nine month forward rate for GBP/USD is 1.6300. You would like protection on your exposure as well as downside bonus benefit but are reluctant to pay a premium for this. You are prepared to accept a Protected Rate of 1.6100. We then calculate the Limit Rate to be 1.5100 (in this example). This guarantees that you are protected at 1.6100 with a potential Bonus Rate down to the Limit Rate of 1.5100.

Possible outcomes at expiry

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| Scenario 1 | GBP/USD strengthens and on expiry, is above 1.61. You are obliged to buy the Protected Amount of USD 750,000 at the Protected Rate of 1.6100. |
| Scenario 2 | GBP/USD weakens and at expiry the market rate is 1.5400, between the Protected Rate of 1.6100 and the Limit Rate of 1.5100, having never traded below the Limit Rate during the life of the contract. You have the right but are not obliged to buy the Protected Amount of USD 750,000 from us at the Bonus Rate of 1.6867. (USD 750k @ 1.61 + [USD @ 1.61 - USD 750k @ 1.54]) |
| Scenario 3 | GBP/USD weakens, and, on the expiry date, the exchange rate is 1.4800, below the Limit Rate of 1.5100. You have the right but are not obliged to buy USD at the Protected Rate of 1.6100. |



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